

SOCIAL SECURITY SOLVENCY OPTIONS

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Table of Contents

- I. Action-Forcing Event
- II. Statement of the Problem
- III. History
- IV. Background
- V. Policy Proposal
- VI. Policy Analysis
- VII. Political Analysis
- VIII. Recommendation
- IX. Curriculum Vitae

MEMORANDUM FOR CHAIRMAN PAUL RYAN

FROM: James Gauthier

SUBJECT: Social Security Solvency Options

I. Action-Forcing Event:

On May 31, 2013, the Board of Trustees, Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Fund released its 2013 Social Security Trustees' Report. This report projected that Social Security will be insolvent within two decades. By 2033, The Old-Age, Survivors, and Disability Insurance (OASDI) Trust Fund is projected to be depleted. Considered separately, the DI Trust Fund reserves will be depleted in 2016, while the OASI Trust Fund reserves will be depleted in 2035.¹ If legislative action is not taken, Social Security beneficiaries will face an immediate 23% cut in benefits beginning in 2033.

II. Statement of the Problem:

Social Security is vital to providing income security to millions of Americans and reducing poverty, but is facing major funding challenges in the near future. The program is facing an across-the-board reduction in benefits beginning in 2033. Problems with the program's funding have been worsened by the Great Recession, because it caused high unemployment and, as result, a reduction in the payroll tax revenue, which finances

¹ "The 2013 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds." The Board of Trustees, Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Fund. May 31, 2014.
<http://www.ssa.gov/oact/tr/2013/tr2013.pdf> (accessed February 3, 2014).

Social Security. According to the *Congressional Research Service*, from 1984 to 2009, Social Security generated surplus tax revenues. In other words, it operated with annual cash-flow surpluses. However, beginning in 2010, the program began operating with annual cash-flow deficits with projections that tax revenues will remain below program expenditures through 2087.² When Social Security operates in a cash-flow deficit, the Trust Fund must rely more on accumulated funds, which will increase spending from the general fund. This is not solely based on the Great Recession, but it is argued that the economic downturn assisted heavily with speeding up the timeframe when the Social Security Trust Fund is projected to be depleted. These numbers suggest that Social Security is in financial trouble and on a path of insolvency. If the program remains on its current path, its cost will continue to grow, with Social Security spending expected to go up 6% per year over the next decade and outlays to make up 5.6% of Gross Domestic Product (GDP) by 2024.³

Since its enactment in 1935, Social Security has continued to expand. In 1940, the program covered 35.4 million workers and 220,000 beneficiaries, which was a ratio of 159.4 workers for every one beneficiary. By 2010, the program was covering more than 156 million workers and 54 million beneficiaries for a ratio of 2.9 workers for every one beneficiary. Since the number of beneficiaries is projected to increase, this ratio will lower.⁴ Further, approximately 80 million baby boomers⁵ (individuals born between

² Nuschler, Dawn. "Social Security Primer." Congressional Research Service. June 17, 2013.

<https://www.fas.org/sgp/crs/misc/R42035.pdf> (accessed February 8, 2014).

³ "CBO's Social Security Projections." The Committee for a Responsible Federal Budget. February 6, 2014. <http://crfb.org/blogs/cbos-social-security-projections> (accessed February 8, 2014).

⁴ "History: Ratio of Covered Workers to Beneficiaries." U.S. Social Security Administration. <http://www.ssa.gov/history/ratios.html> (accessed February 8, 2014).

1946 and 1934) have recently retired, or are on the verge of retirement, and will become eligible for Social Security benefits. With more than 56 million current Social Security beneficiaries, the total population of people over the age of 65 is projected to increase by 77%. This will result in a decline in the number of workers supporting each Social Security beneficiary from 2.9 in 2011 to 2 in 2035.⁶ The Congressional Budget Office (CBO) estimates that by 2024, 63 million people will be receiving OASI benefits, which is 38% more than the number of recipients in 2013.⁷

The Social Security Disability Insurance (SSDI) program, established by Congress in 1956, has seen an expansion in enrollment since its inception. This expansion has become more rapid over the last 25 years. In 1990, the number of SSDI enrollees was 4.3 million, and this increased to 6.7 million by 2000. In 2012, this number increased to 10.9 million, and this has resulted in the ratio of beneficiaries to all working-age people doubling over the last two decades.⁸ According to the Social Security Trustees, SSDI funds will be exhausted in 2016, at which point disabled workers would receive a 20% reduction in benefits.⁹

⁵ Castellano, William. "Welcome to the New Normal of Talent Management." The Financial Times. September 25, 2013. <http://www.ftpress.com/articles/article.aspx?p=2137183&seqNum=3> (accessed February 8, 2014).

⁶ Nuschler, Dawn. "Social Security Primer." Congressional Research Service. June 17, 2013. <https://www.fas.org/sgp/crs/misc/R42035.pdf> (accessed February 8, 2014).

⁷ Congressional Budget Office. "The Budget and Economic Outlook: 2014 to 2024." February 4, 2014. http://www.cbo.gov/sites/default/files/cbofiles/attachments/45010-Outlook2014_Feb.pdf (accessed April 27, 2014).

⁸ DeHaven, Tad. "The Rising Cost of Social Security Disability Insurance." Cato Institute Policy Analysis, No. 733. August 6, 2013. http://object.cato.org/sites/cato.org/files/pubs/pdf/pa733_web.pdf (accessed February 8, 2014).

⁹ "The 2013 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds." The Board of Trustees, Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Fund. May 31, 2014. <http://www.ssa.gov/oact/tr/2013/tr2013.pdf> (accessed April 27, 2014).

According to the 2013 Social Security Trustees' report, Social Security fiscal shortfalls need to be addressed. The Trustees recommend that "lawmakers address the projected trust fund shortfalls in a timely way in order to phase in necessary changes and give workers and beneficiaries time to adjust to them."¹⁰ As spending for the program continues to increase, and is projected to continue increases, deficits will continue to grow. Estimates show that programmatic deficits will grow from 0.46% of GDP in 2013 to 1.38% of GDP in 2040.¹¹ While Social Security is not considered part of the federal budget, due to its dedicated funding, its projected deficits do contribute to the unified budget deficit when looking at all government programs as a whole. Estimates indicate that Social Security shortfalls average 4% of the unified budget each year,¹² and as the program's costs continue to grow, revenues will not increase to cover the expenses, which will add to the public debt.¹³

III. History

The Social Security Act was enacted on August 14, 1935 as a method to establish economic security for American workers. The Old Age Insurance system was created to provide benefits to individuals who were 65 years of age or older and who earned

¹⁰ Ibid

¹¹ The Committee for a Responsible Federal Budget. "Analysis of the Social Security Trustees Report." May 31, 2014. http://crfb.org/sites/default/files/social_security_2013_trustees_report.pdf (accessed April 27, 2014).

¹² Mishel, Lawrence, Monique Morrissey, and Harry Ballantyne. "Social Security and the Federal Deficit." Economic Policy Institute. August 6, 2010. http://www.epi.org/publication/social_security_and_the_federal_deficit/ (accessed April 27, 2014).

¹³ The Committee for a Responsible Federal Budget. "Social Security: One Program, Two Viewpoints." August 9, 2010. <http://crfb.org/blogs/social-security-one-program-two-viewpoints> (accessed April 27, 2014).

retirement benefits by working in jobs covered by the system.¹⁴ This initiative came as a reaction to the Great Depression, and the growing number of older Americans who were unemployed and facing age discrimination. This resulted in people who had been working all of their lives having to live in poverty.¹⁵ Upon signing the Social Security Act, President Roosevelt stated that the new program would give “at least some protection to thirty millions of our citizens who will reap direct benefits through unemployment compensation, through old-age pensions and through increased services for the protection of children and the prevention of ill health.”¹⁶ In the 1940’s, Social Security became a pay-as-you system, in contrast to a fully-funding system that it was originally designed to be, through passage of the Revenue Acts of 1943 and 1945. This resulted in the system having less assets than actuarial liabilities.¹⁷

Since its inception, the program has been instrumental for addressing a number of market failures. Social Security provides insurance for those who become disabled or outlive their retirement savings. Before Social Security, the norm was for those who lived beyond their ability to work would be taken care of by their family, which meant there was no need to save, since the financial burden of retirement would fall onto

¹⁴ Nuschler, Dawn. “Social Security Primer.” Congressional Research Service. June 17, 2013. <https://www.fas.org/sgp/crs/misc/R42035.pdf> (accessed February 8, 2014).

¹⁵ “Our Documents: The Social Security Act.” Franklin D. Roosevelt Presidential Library. August 14, 1935. <http://docs.fdrlibrary.marist.edu/odssa.html> (accessed February 17, 2014).

¹⁶ Franklin D. Roosevelt. “Statement on Signing the Social Security Act.” August 14, 1935. <http://www.presidency.ucsb.edu/ws/?pid=14916> (accessed February 17, 2014).

¹⁷ Feldstein, Martin and Jeffrey Liebman. “Social Security.” Harvard University. <http://www.hks.harvard.edu/jeffreyliebman/ch32.pdf> (accessed April 27, 2014).

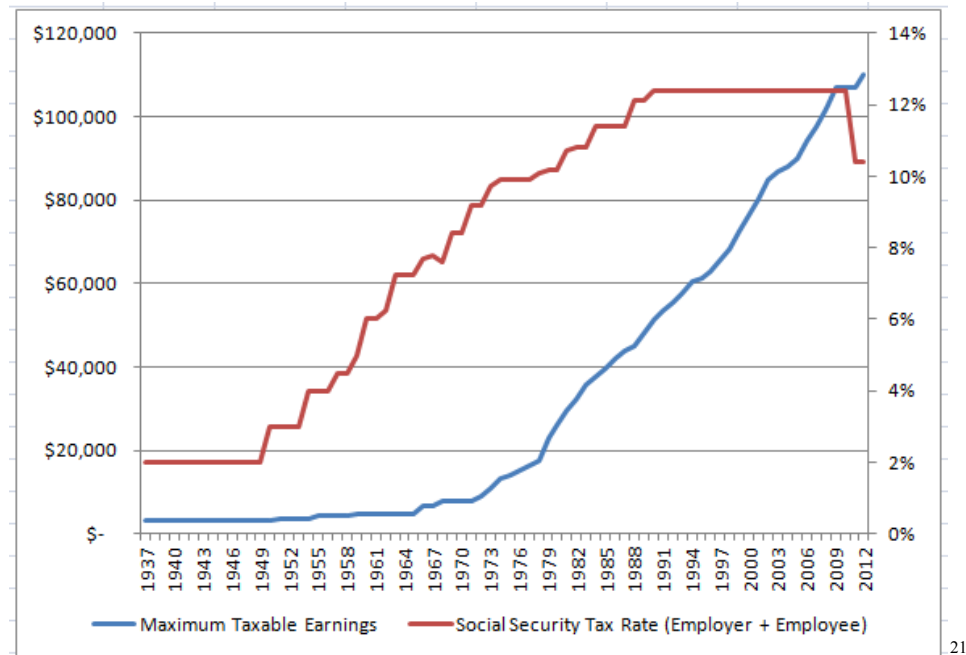
others.¹⁸ This resulted in the creation of a legacy debt since one generation would be receiving benefits while not having paid into the system.¹⁹

When it was enacted, the Social Security program was to be funded by the payroll tax, which began at a rate of 2% of pay (1% for workers, 1% for employers) in 1937. The level of wages subject to payroll taxation in 1937 was \$3,000. Both of these rates have been increased throughout the years, with current levels being 12.4% for the current payroll tax rate, and \$117,000 for wages subject to taxation.²⁰ Funding of the program has been done on a pay-as-you-go basis with current retirees' benefits are paid with current revenues from workers and employers via the payroll tax. This graph depicts the increase in the payroll tax and maximum taxable income cap for Social Security from 1937-2012:

¹⁸ Goldwein, Marc. "Social Security: Population aging, programmatic insolvency, and options for reform." Johns Hopkins University, Washington, DC. 4 April 2013. Lecture.

¹⁹ Diamond, Peter and Peter Orszag. "Saving Social Security: A Balanced Approach." Brookings Institution Press. December 4, 2003.

²⁰ Nuschler, Dawn. "Social Security Primer." Congressional Research Service. June 17, 2013. <https://www.fas.org/sgp/crs/misc/R42035.pdf> (accessed February 17, 2014).



In the following decades, changes made to Social Security involved expansion of the program, which caused more Americans to receive benefits and its costs to grow. This included universal coverage, with the exception of state and local government employees.²² In 1956, President Dwight D. Eisenhower signed into law the Social Security Amendments of 1956. This established the Disability Insurance (DI) program in order to provide monthly payments to disabled workers between the ages of 50 and 65.²³ Two years later, the Social Security Amendments Act of 1958 was enacted, which expanded the program by including dependents of disabled workers.²⁴ Below is a graph

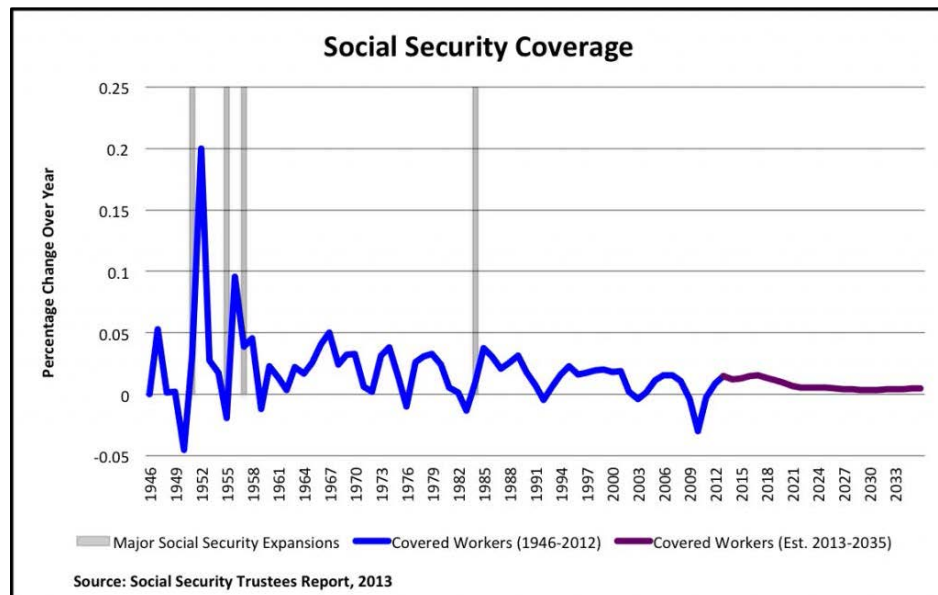
²¹ “Historical Social Security Tax Rates.” Tax Policy Center. February 26, 2013. http://www.taxpolicycenter.org/taxfacts/Content/PDF/ssrate_historical.pdf (accessed February 17, 2014).

²² Nuschler, Dawn. “Social Security Primer.” Congressional Research Service. June 17, 2013. <https://www.fas.org/sgp/crs/misc/R42035.pdf> (accessed February 17, 2014).

²³ “Social Security and the ‘D’ in OASDI: The History of a Federal Program Insuring Earners Against Disability.” US Social Security Administration, Office of Policy. 2005/2006. <http://www.ssa.gov/policy/docs/ssb/v66n3/v66n3p1.html> (accessed February 17, 2014).

²⁴ “1986 Disability History Report.” US Social Security Administration. January 1986. <http://www.ssa.gov/history/1986dibhistory.html> (accessed February 20, 2014).

depicting how the number of workers covered by the Social Security program has grown, and shows rapid growth in the early years of the program:



25

In 1972, legislation was enacted to allow for automatic cost-of-living adjustments (COLA) for benefit payments. The Social Security Amendments of 1972 provided for automatic COLAs, which were first paid in 1975. Before this, COLAs were only enacted if approved by Congressional legislation.²⁶ Once automatic COLAs became enacted, recipients have received one in every year, with the exception of 2010 and 2011. These increases have ranged from 1.3% to 14.3%.²⁷ The COLA was created by the Bureau of Labor and Statistics and is based on the budget of average U.S. wage earners.

²⁵ The Board of Trustees, Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Fund. "The 2013 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds." May 31, 2013. <http://www.ssa.gov/oact/tr/2013/lr4b2.html> (accessed February 20, 2014).

²⁶ Sidnor, Gary. "Social Security: Cost-of-Living Adjustments." Congressional Research Service. November 6, 2013. <http://www.fas.org/sgp/crs/misc/94-803.pdf> (accessed February 20, 2014).

²⁷ Ibid

The other factor taken into account is the cost of buying goods and services, known as the Consumer Price Index (CPI)²⁸.

In the late 1970's, concerns began to arise regarding Social Security's financing problems. In 1975 and 1976, President Gerald Ford attempted to address the projected Social Security deficit, which was \$1.5 billion and expected to double by 1976 and quadruple by 1977. Ford called for a 5% limit on COLA and raising the payroll tax by 0.6%, both of which were never acted upon.²⁹

In 1977, President Jimmy Carter was able to sign into law the Social Security Amendments of 1977. This legislation sought to restore fiscal solvency to this program by raising revenue and cutting costs. Specifically, a new benefit formula was implemented that was set at a level which was a rollback from levels set by the old formula. It also increased Social Security withholding from 2% to 6.5%.³⁰ Despite these fixes, Carter proposed short-term benefit reductions in 1978, as stagflation caused projections to show deficits to occur sooner.³¹ However, Congress did not act on this proposal.

Ronald Reagan began to advocate for Social Security reform in 1981. Reagan proposed a number of benefit-reducing items, including monthly payments to full-time

²⁸ Penner, Rudolph G. "Adjusting Social Security Benefits for Changes in the Cost of Living." The Urban Institute. July 1, 2010. <http://www.urban.org/publications/412168.html> (accessed February 22, 2014).

²⁹ Goldwein, Marc. "Riding the Third Rail: The Politics of Social Security Reform in the Retrenchment Era." National Academy of Social Insurance; Johns Hopkins University; New America Foundation. April 24, 2007. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1007811 (accessed February 22, 2014).

³⁰ Kelly, James and Joseph Humpries. "Congressional Intent Concerning the Notch Issue: Legislative Background of the 1977 Social Security Amendments." US Social Security Administration Reports and Studies. <http://www.ssa.gov/history/notchfile3.html> (accessed February 22, 2014).

³¹ Goldwein, Marc. "Riding the Third Rail: The Politics of Social Security Reform in the Retrenchment Era." National Academy of Social Insurance; Johns Hopkins University; New America Foundation. April 24, 2007. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1007811 (accessed February 22, 2014).

students, benefit reductions for future Social Security recipients who retire before the age of 65, and delay in COLA. This was all met with bipartisan opposition from Congress and Reagan abandoned these proposals.³²

Despite Reagan's inability to reform the program in 1981, he did establish the National Commission on Social Security Reform (the Greenspan Commission) through Executive Order. In 1983, the Greenspan Commission submitted a proposal to the President that, among other things, permanently postponed COLA increases by six months, increased payroll taxes, and gradually increased the retirement age from 65 to 67.³³ Congress was able to approve this proposal in bipartisan fashion. Specifically, the Social Security Amendments of 1983 increased payroll tax rates for employers and individuals to 7% in 1984 and increased each year to reach 7.65% in 1990. The bill also raised the age of eligibility for unreduced benefits in two stages to 67 and introduced means-testing by subjecting up to one-half of benefits to taxation if individuals met an adjusted gross income threshold.³⁴ As a result of the Social Security Amendments of 1983, Social Security would run surpluses through approximately 2020.³⁵ This proposal was successfully passed for a number of reasons. In 1983, there was a urgent need to address Social Security's funding shortfall, as the Trust Fund as projected to run a deficit

³² "Social Security Programs In the Reagan Presidency." New York Times Archives. November 16, 1988. <http://www.nytimes.com/1988/11/16/us/social-security-programs-in-the-reagan-presidency.html> (accessed February 22, 2014).

³³ Nuschler, Dawn. Social Security Reform: Current Issues and Legislation. Congressional Research Service. November 28, 2012. <http://www.fas.org/sgp/crs/misc/RL33544.pdf> (accessed February 22, 2014).

³⁴ Social Security Administration. "Summary of 1983 Social Security Amendments." <http://www.ssa.gov/history/1983amend.html> (accessed April 27, 2014).

³⁵ Goldwein, Marc. "Riding the Third Rail: The Politics of Social Security Reform in the Retrenchment Era." National Academy of Social Insurance; Johns Hopkins University; New America Foundation. April 24, 2007. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1007811 (accessed February 22, 2014).

by mid-year.³⁶ Further, President Reagan was also facing low approval ratings, which some have argued forced him to give up his ideological opposition to tax increases, which allowed for bipartisan negotiation of a comprehensive plan.³⁷

Throughout most of the 1990's, there was little discussion of changing Social Security. President George H.W. Bush did not propose any changes to the program and spoke of protecting the sanctity of Social Security benefits.³⁸ President Bush even went as far as to proclaim "the last thing we need to do is mess around with Social Security."³⁹ President Clinton also did not make any major attempts to reform Social Security until his second term. In his 1998 State of the Union Address, Clinton called for a bipartisan solution to "save Social Security first" with the projected budget surplus and to strengthen the system for the 21st Century.⁴⁰ Clinton attempted to negotiate a plan throughout 1998, but was not successful. In 1999, he proposed his own reform plan that would have allocated some budget surpluses to individual accounts, supplemented by a worker's own contributions and a government match. The plan also would have redirected a portion of budget surpluses to the Social Security trust funds and use some

³⁶ Light, Paul. "The Crisis Last Time: Social Security Reform." The Brookings Institute. March 5, 2005. <http://www.brookings.edu/research/opinions/2005/03/05saving-light> (accessed April 27, 2014).

³⁷ Goldwein, Marc. "Riding the Third Rail: The Politics of Social Security Reform in the Retrenchment Era." National Academy of Social Insurance; Johns Hopkins University; New America Foundation. April 24, 2007. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1007811 (accessed February 22, 2014).

³⁸ Bush, George H.W. "The President's News Conference." January 24, 1990. <http://www.ssa.gov/history/bushstmts.html#letterb> (accessed February 22, 2014).

³⁹ Bush, George H.W. "Address Before a Joint Session of Congress on the State of the Union." January 31, 1990. <http://www.ssa.gov/history/bushstmts.html#letterb> (accessed February 22, 2014).

⁴⁰ Clinton, William. "Address Before a Joint Session of Congress on the State of the Union." January 27, 1998. <http://www.cnn.com/ALLPOLITICS/1998/01/27/sotu/transcripts/clinton/> (accessed February 22, 2014).

the funds to be invested in equities.⁴¹ Reports indicate that Clinton had successfully negotiated this plan with then-Speaker of the House, Newt Gingrich, but revelations of his affair with Monica Lewinsky and subsequent impeachment hearings cost President Clinton much of his political capital and action was never taken on this plan.⁴²

President George W. Bush proposed to reform Social Security during his Administration, and was a strong proponent of at least partial privatization of Social Security. The idea of privatizing Social Security was not a new concept. During the 1964 Presidential election, Barry Goldwater suggested that Social Security become voluntary.⁴³ Many conservatives since then have also made the case for privatizing Social Security, citing greater returns for retirement through private investment and greater choice and availability of safe and low-cost investments.⁴⁴ President Bush made Social Security reform a top priority and established a Commission in May 2001 to “modernize” the program, while advocating personal savings accounts as a manner to transform Social Security from “a government IOU into personal property and real assets.”⁴⁵ The Commission produced a proposal, but no further action was taken. Specially, the Commission recommended establishing voluntary personal accounts for

⁴¹ Nuschler, Dawn. “Social Security Reform: Current Issues and Legislation.” Congressional Research Service. November 28, 2012. <http://www.fas.org/sgp/crs/misc/RL33544.pdf> (accessed February 23, 2014).

⁴² Goldwein, Marc. “Riding the Third Rail: The Politics of Social Security Reform in the Retrenchment Era.” National Academy of Social Insurance; Johns Hopkins University; New America Foundation. April 24, 2007. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1007811 (accessed April 27, 2014).

⁴³ Barnes, Bart. “Barry Goldwater, GOP Hero, Dies.” Washington Post. May 30, 1998. <http://www.washingtonpost.com/wp-srv/politics/daily/may98/goldwater30.htm> (accessed February 23, 2014).

⁴⁴ Crane, Edward. America’s Social Security System: The Case for Privatizing. Vital Speeches. April 15, 1998. <http://www.cato.org/publications/commentary/americas-social-security-system-case-privatizing> (accessed February 26, 2014).

⁴⁵ Bush, George W. “Remarks by the President in Social Security Announcement.” May 2, 2001. <http://www.ssa.gov/history/gwbushstmts.html#05022001> (accessed February 23, 2014).

workers to invest a portion of their taxable wages in private investments.⁴⁶ Bush attempted to reform Social Security again in 2005, by advocating for personal accounts. His plan would have allowed for voluntary personal savings accounts which workers would have been allowed to invest up to a third of payroll taxes into the accounts with annual contributions capped at \$1,000 a year and subsequently increasing approximately \$100 per year. President Bush dismissed the idea of raising the payroll tax, but indicated that reform options on the table were limiting benefits for wealthy retirees, indexing benefits to prices rather than wages, increasing the retirement age, and discouraging receiving benefits early.⁴⁷ This proposal gained no real traction as Democrats uniformly opposed it and, following Hurricane Katrina, the President lost overall Congressional support for the Administration's handling of the disaster, resulting in the Bush acknowledging that the proposal failed.⁴⁸ More recently, as you know, in 2010 you introduced the Roadmap for America's Future, which called for the creation of personal accounts.⁴⁹

President Obama has hinted at the need to strengthen Social Security, even stating in his 2011 State of the Union that "we should also find a bipartisan solution to strengthen Social Security for future generations. We must do it without putting at risk

⁴⁶ The President's Commission to Strengthen Social Security. "Strengthening Social Security and Creating Personal Wealth For All Americans." December 21, 2011.

http://govinfo.library.unt.edu/csss/reports/Final_report.pdf (accessed April 27, 2014).

⁴⁷ Sahadi, Jeanne. "Bush's Plan for Social Security." CNN Money. March 4, 2005.

http://money.cnn.com/2005/02/02/retirement/stofunion_socsec/ (accessed April 27, 2014).

⁴⁸ Galston, William. "Why the 2005 Social Security Initiative Failed, and What it Means for the Future." Brookings Institution. September 21, 2007.

http://www.brookings.edu/research/papers/2007/09/21_governance-galston (accessed April 27, 2014).

⁴⁹ Ryan, Paul. "A Roadmap for America's Future." January 2010.

<http://roadmap.republicans.budget.house.gov/uploadedfiles/roadmap2final2.pdf> (accessed February 23, 2014).

current retirees, the most vulnerable, or people with disabilities; without slashing benefits for future generations; and without subjecting Americans' guaranteed retirement income to the whims of the stock market.”⁵⁰ In the President's Fiscal Year 2014 Budget of the U.S. Government, a provision was included endorsing the concept of Chained CPI, which would lower the COLA for benefits by switching to a different CPI that assumes that people change their buying habits when things become more expensive, so they don't need their benefits to rise as much every year.⁵¹ This concept was met with opposition from member of the President's own party, and he was described as “the first Democratic president ever to propose reductions in Social Security benefits by endorsing an alternate measure of inflation.”⁵²

In light of growing concerns with deficits and the debt, a growing interest in reforming Social Security has emerged. In 2010, President Obama signed an Executive Order establishing the National Commission on Fiscal Responsibility and Reform, commonly known as Simpson-Bowles, in order to identify “policies to improve the fiscal situation in the medium term and to achieve fiscal sustainability over the long run.”⁵³ The Simpson-Bowles, of which you were a member, produced a report outlining a number of deficit and debt reduction measures, including Social Security reform

⁵⁰ Obama, Barack. “Address Before a Joint Session of Congress on the State of the Union.” January 25, 2011. <http://www.whitehouse.gov/the-press-office/2011/01/25/remarks-president-state-union-address> (accessed February 23, 2014).

⁵¹ Nather, David. “Chain CPI primer: Obama's buzzword explained.” Politico. April 5, 2013. <http://dyn.politico.com/printstory.cfm?uuid=157C2DD0-EFE5-4056-B64D-56DABE07EA76> (accessed February 23, 2014).

⁵² Kramer, Mattea. *Top 5 Things to Know About President Obama's 2014 Budget*. National Priorities Project. April 10, 2013. <http://nationalpriorities.org/blog/2013/04/10/president-obamas-2014-budget-top-5-things-know/> (accessed February 23, 2014).

⁵³ The White House. “Executive Order 13531 -- National Commission on Fiscal Responsibility and Reform.” February 18, 2010. <http://www.whitehouse.gov/the-press-office/executive-order-national-commission-fiscal-responsibility-and-reform> (accessed February 23, 2014).

measures such as raising the retirement age, implementing Chained CPI, and increasing the taxable maximum of wages to 90%.⁵⁴ The Bipartisan Policy Center formed a Debt Reduction Task Force led by former Senator Pete Domenici and former White House Office of Management and Budget director and Congressional Budget Office director, Alice Rivlin. The report produced by the Task Force, known as Domenici-Rivlin, called for a number of changes to Social Security, including expanding coverage to state and local workers, adjusting the COLA, and indexing the benefit formula.⁵⁵ While both plans received some praise for their willingness to pursue balanced approaches to solving long-term fiscal challenges, there has been no serious effort by the President or Congress to advance any of the recommendations.

IV. Background

Since 2010, Social Security has taken in less money through payroll tax revenue than it has pays out through benefits. This was partially contributed by a temporary 2% cut in the payroll tax that was included in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, which also extended in 2010 to extend Bush Tax rates by two years. This provision was again extended through 2012 by the Middle Class Tax Relief and Job Creation Act of 2012, but expired in 2013.⁵⁶ In 2012,

⁵⁴ “The Moment of Truth: Report of the National Commission on Fiscal Responsibility and Reform.” National Commission on Fiscal Responsibility and Reform. December 2010. http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/TheMomentofTruth12_1_2010.pdf (accessed February 23, 2014).

⁵⁵ “Restoring America’s Future.” The Debt Reduction Task Force. November 2010. <http://bipartisanpolicy.org/sites/default/files/files/BPC%20FINAL%20REPORT%20FOR%20PRINTER%2002%2028%2011.pdf> (accessed February 23, 2014).

⁵⁶ “Summary of The Middle Class Tax Relief and Job Creation Act of 2012.” United States Senate Committee on Finance. February 16, 2012.

Social Security had a \$55 billion deficit and the combined 75-year unfunded obligation of the Social Security and DI \$12.3 trillion.⁵⁷ As a result of this projected funding shortfall, benefits will be reduced by 23% in 2033. Social Security plans for solvency over 75-year periods, but as a result of the Great Recession and demographic pressures on the program, the program's insolvency trajectory has been sped up.⁵⁸

Should these projections come to fruition, this will place a major strain on the federal budget or will require a significant reduction in benefits. According to Congressional Budget Office (CBO) Director, Douglas Elmendorf, beginning in 2017, the aging population will “substantially boost spending for Social Security” if no changes to current law are made.⁵⁹ Over the next two decades, it is projected that there will be 90 million Social Security beneficiaries, compared to 56 million beneficiaries today.⁶⁰ Director Elmendorf has also testified before the House Budget Committee that the longer Congress waits to address the state of Social Security, the harder it will be:

“So the longer one waits to make changes, the larger the changes need to be and the more abruptly they would need to take effect. For Social Security right now, the age for full retirement benefits is working its way up as part of an agreement

<http://www.finance.senate.gov/newsroom/chairman/release/?id=c42a8c8a-52ad-44af-86b2-4695aaff5378> (accessed March 13, 2014).

⁵⁷ Boccia, Romina and Rachel Greszler. “Social Security Trust Fund Reports Massive Deficits, Benefit Cuts by 2033. The Heritage Foundation. Issue Brief # 3952 on Retirement Security. May 31, 2013. http://www.heritage.org/research/reports/2013/05/2013-social-security-trust-fund-reports-massive-deficits-benefit-cuts#_ftn1 (accessed March 1, 2014).

⁵⁸ New York Times Editorial Board. “Social Security, Present and Future.” The New York Times Sunday Review. May 30, 2013. http://www.nytimes.com/2013/03/31/opinion/sunday/social-security-present-and-future.html?_r=0 (accessed March 1, 2014).

⁵⁹ Elmendorf, Douglas. Congressional Budget Office. “Testimony on The Budget and Economic Outlook: Fiscal Years 2013 to 2023.” Before the Committee on the Budget United States Senate. February 12, 2013. http://www.cbo.gov/sites/default/files/cbofiles/attachments/43862_OutlookTestimony_Senate_2012-02-12.pdf (accessed March 1, 2014).

⁶⁰ “Social Security Reform and the Cost of Delay”. Committee for a Responsible Federal Budget. August 22, 2013. http://crfb.org/sites/default/files/social_security_cost_of_waiting_8_22_13.pdf (accessed March 1, 2014).

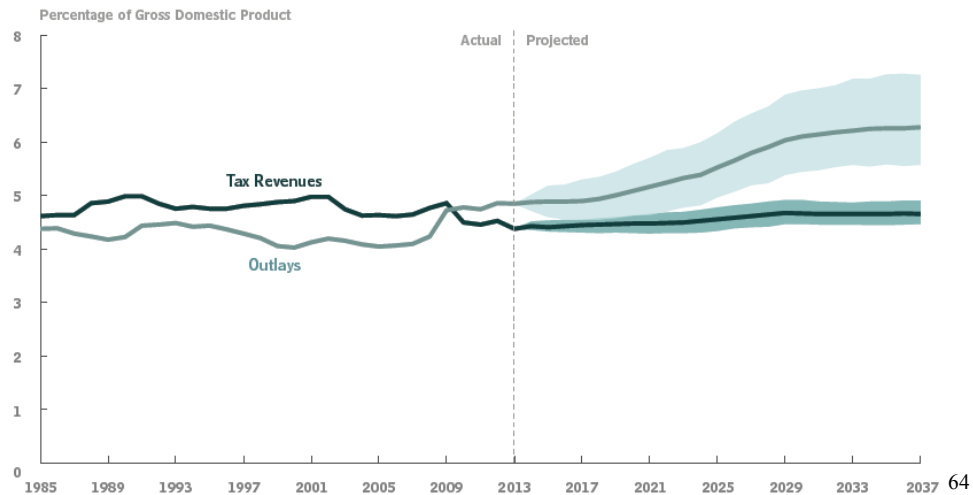
the Congress and president reached in the early 1980s. And that agreement was to do various things including phasing an increase in retirement age over a long period. But, the longer one waits to address the imbalance of Social Security and the federal budget as a whole, the less time one would have to phase in any changes that you and your colleagues agreed to.”⁶¹

In its 2013 Long-Term Budget Outlook, the CBO projects that the cost of Social Security will “rise significantly in the coming decades.”⁶² CBO asserts this rising cost to a growth in average benefits per beneficiary (the earning which the benefits are based from also increase), more members of the baby-boom generation are beginning to retire, and longer life expectancies. Due to these factors, CBO projects that, under current law, the benefits expected to be paid out will grow faster than the economy. This would mean that spending on Social Security would rise from the current rate 4.9% of GDP to 6.2% in 2038, and revenues to fund Social Security are also projected to grow slower than spending for the program.⁶³ Below is a chart demonstrating the CBO’s projections that Social Security payments will continue to outgrow payroll tax revenues as a percentage of GDP.

⁶¹ Elmendorf, Douglas. Congressional Budget Office. “Testimony The 2013 Long-Term Budget Outlook. Before the Committee on the Budget, United States House of Representatives.” September 27, 2013. <http://crfb.org/blogs/discussion-cbo-director-elmendorf-costs-waiting-address-fiscal-challenges> (accessed March 1, 2014).

⁶² “The 2013 Long-Term Budget Outlook.” Congressional Budget Office. September 2013. http://www.cbo.gov/sites/default/files/cbofiles/attachments/44521-LTBO2013_0.pdf (accessed March 1, 2014).

⁶³ Ibid



Meanwhile, the nation is facing what is been referred to as a “retirement crisis,” with many Americans financially unprepared for retirement. According to the Senate Health, Education, Labor, and Pensions Committee, half of all Americans have less than \$10,000 in savings, and almost half of the nation’s oldest Baby Boomers risk not having sufficient retirement resources.⁶⁵ This suggests that there could be an even greater reliance on Social Security for retirees in the future, and that upcoming across-the-board, immediate benefit reductions could have devastating impacts to Social Security beneficiaries. America is already seeing a growing percentage of the elderly population facing poverty for a number of reasons, including many not saving sufficient amounts for retirement and spending down their savings too quickly.⁶⁶ While never meant to be a sole

⁶⁴ The 2013 Long-Term Projections for Social Security: Additional Information. Congressional Budget Office. December 2013. <http://www.cbo.gov/sites/default/files/cbofiles/attachments/44972-SocialSecurity.pdf> (accessed March 1, 2014).

⁶⁵ “The Retirement Crisis and a Plan to Solve It.” US Senate Committee on Health, Education, Labor, and Pensions. July 2012. <http://www.harkin.senate.gov/documents/pdf/5011b69191eb4.pdf> (accessed March 1, 2014).

⁶⁶ Brandon, Emily. “Poverty Increasing Among Retirees.” US News and World Report. May 21, 2012. <http://money.usnews.com/money/retirement/articles/2012/05/21/poverty-increasing-among-retirees> (accessed March 13, 2014).

source of retirement income, this suggests that many seniors are relying solely on Social Security income and that automatic, across-the-board benefit cuts could enhance this problem.

Social Security has been called the “The Third Rail of Politics” and “a sacred cow that no politician dared to criticize.”⁶⁷ Attempts to reform the Social Security by conservatives, liberal, and in bipartisan manners, have always been met with resistance by stakeholders. Even successful attempts to reform Social Security took a number of tries to enact. Because of the rising number of players who have an interest in Social Security now, such as think tanks, labor unions, coalitions, and business groups, both sides of the aisle have been reluctant to propose any major changes to the program out of fear of being attacked by these groups. Seniors, one of the highest voting turnout populations in the United States, pay attention to COLA raises and often fear anything that may be perceived as a benefit reduction and those who oppose reform have argued that reducing benefits “hurts people,” specifically seniors and the disabled.⁶⁸ With a two-year election cycle, and the balance of power so close in Congress, party leaders have been reluctant to propose anything that touches such a contentious issue. Presidential campaigns have been lost by candidates speaking against Social Security or suggested

⁶⁷ Goldwein, Marc. “Riding the Third Rail: The Politics of Social Security Reform in the Retrenchment Era.” National Academy of Social Insurance; Johns Hopkins University; New America Foundation. April 24, 2007. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1007811 (accessed March 13, 2014).

⁶⁸ Johnson, Dave. “Social Security Is Still the Third Rail (You've Been Warned).” The Huffington Post. December 20, 2012. http://www.huffingtonpost.com/dave-johnson/social-security-is-still_b_2335027.html (accessed March 13, 2014).

radical overhauls, and campaigns to alter the program by presidents and Congress have more failure than success stories.⁶⁹

Stakeholders

- **Obama Administration:** President Obama has indicated his commitment to “strengthening and protecting” Social Security and believes that current beneficiaries should not be impacted by any reforms, but left the door open for future beneficiaries.⁷⁰ In his Fiscal Year 2014 Budget submission, a provision was included indicating that President Obama was willing to accept the concept of Chained CPI for Social Security so long as it was included as part of a “balanced deficit reduction package that includes substantial revenue raised through tax reform” and “coupled with measures to protect the vulnerable and avoid increasing poverty and hardship.”⁷¹ However, in the President’s Fiscal Year 2015 Budget submission, Chained CPI was not included.⁷²
- **Senate Finance Committee Chairman Ron Wyden (D-OR):** Chairman Wyden is known for his willingness to work on big issues in a partisan manner, such as health care and tax reform. Prior to assuming the Chairmanship of the Senate

⁶⁹ Goldwein, Marc. “Riding the Third Rail: The Politics of Social Security Reform in the Retrenchment Era.” National Academy of Social Insurance; Johns Hopkins University; New America Foundation. April 24, 2007. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1007811 (accessed March 13, 2014).

⁷⁰ “Seniors and Social Security.” The White House. <http://www.whitehouse.gov/issues/seniors-and-social-security> (accessed March 1, 2014).

⁷¹ “Fiscal Year 2014 Budget Fact Sheet: Chained CPI Protections.” White House Office of Management and Budget. <http://www.whitehouse.gov/omb/budget/factsheet/chained-cpi-protections> (accessed March 1, 2014).

⁷² Goldfarb, Zachary. “Liberals didn’t kill Obama’s Social Security cuts. Republicans did.” The Washington Post. February 21, 2014. <http://www.washingtonpost.com/blogs/wonkblog/wp/2014/02/21/liberals-didnt-kill-obamas-social-security-cuts-republicans-did/> (accessed March 1, 2014).

Finance Committee in February 2014, Senator Wyden has been relatively quiet on the issue of reforming Social Security. He opposed President Bush's plan for partial privatization, but has recently indicated that he would be willing to look into reforming Social Security, so long as it is done in a bipartisan manner. Senator Wyden concedes the demographic problem, referring to it as a "tsunami," and indicated that no serious proposal can be done without dealing with rising entitlement spending, including Social Security.⁷³

- **House Republicans:** The Republican Study Committee's (RSC's), which you are a member of and includes over 170 House Republicans, Fiscal Year 2014 Budget proposed to gradually raise the retirement age for Social Security to 70 for individuals born in 1962, and implement Chained CPI for benefit calculations.⁷⁴ However, this plan was voted on in the House on March 20, 2013 during the FY 2014 Budget debate, and was rejected by a vote of 104-132, with 171 Democrats voting present.⁷⁵ You opposed this proposal, along with most members of Republican leadership, including Majority Leader Cantor and Majority Whip McCarthy. Further, a 2013 letter to Speaker Boehner, led by Congressman Reid Ribble (R-WI-08) and cosigned by 50 House Republicans, urged the Speaker to

⁷³ McCallister, Ramona. "Wyden: Budget can't be fixed without addressing Medicare, Social Security." Central Oregonian. January 13, 2013. <http://portlandtribune.com/ceo/165-sports/178145-wyden-budget-can%E2%80%99t-be-fixed-without-addressing-medicare-social-security> (accessed March 1, 2014).

⁷⁴ "Back to Basics: A Budget for Fiscal Year 2014." The Republican Study Committee. March 2013. http://rsc.scalise.house.gov/uploadedfiles/back_to_basics-rsc_fy2014_budget.pdf (accessed March 1, 2014).

⁷⁵ House Vote #86. "H.Amdt. 35 (Woodall) to H.Con.Res. 25: Amendment in the nature of a substitute numbered 4 printed in House Report 113-21." March 20, 2013. <https://www.govtrack.us/congress/votes/113-2013/h86> (accessed March 14, 2014).

include fixing long-term Social Security financing problems as part of the 2013 debt ceiling negotiations. The letter suggested raising the retirement age, adjusting benefit calculations, means-testing for higher income individuals. This letter also called for gradually restoring the income cap on the payroll tax to Reagan Administration-era levels (\$45,000 was the income cap when Reagan left office), but this would likely produce less revenue and cause greater insolvency.⁷⁶

- **Progressive Senate Democrats:** There is a coalition of Senate Democrats, led by Senator Bernie Sanders (I-VT) that has been very vocal against Social Security overhaul proposals. When President Obama included Chained CPI in his Fiscal Year 2014 Budget, Senator Sanders sponsored a resolution expressing that Chained CPI should not be used to calculate benefits and, more recently, wrote a letter to the President, cosigned by 15 other Senate Democrats, urging him not to include Social Security cuts in his Fiscal Year 2015 Budget.⁷⁷ Senator Sanders has also stated that progressive Senate Democrats should stand together and filibuster any legislation that includes cuts to Social Security.⁷⁸
- **AARP, Inc.:** AARP, Inc. is a non-profit advocacy group for people age 50 and over. AARP has approximately 40 million members and is considered one of the

⁷⁶ U.S. Congressman Reid Ribble. "Ribble Pushes to End Debt Ceiling Showdown; Urges Members to Step Up and Save Social Security." September 19, 2013. <http://ribble.house.gov/press-release/ribble-pushes-end-debt-ceiling-showdown-urges-members-step-and-save-social-security> (accessed March 1, 2014).

⁷⁷ Sanders, Bernie. "Dear Mr. President: Don't Cut Social Security, Medicare, Medicaid." February 14, 2014. <http://www.sanders.senate.gov/newsroom/recent-business/dear-mr-president-dont-cut-social-security-medicare-medicare> (accessed March 2, 2014).

⁷⁸ Sargent, Greg. "Bernie Sanders: Just say No to any entitlement benefits cuts." The Washington Post. March 11, 2013. <http://www.washingtonpost.com/blogs/plum-line/wp/2013/03/11/bernie-sanders-just-say-no-to-any-entitlement-benefits-cuts/> (accessed March 2, 2014).

most powerful lobbying groups in the country.⁷⁹ AARP is very resistant to any changes to the current Social Security system and takes the current position that the program is not a “piggy bank for deficit reduction.”⁸⁰ AARP has also been very opposed to the reform concept of Chained CPI, and in a 2012 letter to the President and Members of Congress, the organization stated that “Social Security is not the cause of our current large budget deficits. In fact, as you know, Social Security is a self-financed, off-budget program and any reduction in Social Security does nothing to address the shortfall in the rest of the federal budget.”⁸¹ Any proposal to address the long-term fiscal insolvency of Social Security will likely face some backlash from AARP, as it contends that the program’s financial difficulties are not near-term nor driving the federal deficit.⁸² AARP also vehemently opposed the Simpson-Bowles Social Security reforms, as well as President Obama’s inclusion of Chained CPI in his Fiscal Year 2014 Budget.

- **Budget Hawk Groups:** A number of the groups that have been very active in the area of addressing the deficit and debt have indicated that reforming Social Security has to be a part of this process. *The Concord Coalition*, an organization promoting fiscal responsibility, has long-advocated for Social Security reform and

⁷⁹ Carney, Tim. “Wealthy AARP: One of the Country’s Most Powerful Lobbies.” Human Events. March 25, 2010. <http://www.humanevents.com/2010/03/25/wealthy-aarp-one-countrys-most-powerful-lobbies/> (accessed March 2, 2014).

⁸⁰ Rand, Barry A. “There Are Better Ways to Reduce the Deficit Than Using Social Security and Medicare.” AARP Bulletin. May 31, 2013. <http://www.aarp.org/politics-society/advocacy/info-05-2013/reduce-deficit-improve-medicare-keep-social-security.html> (accessed March 2, 2014).

⁸¹ AARP. “AARP Opposes Social Security Benefit Cut as Part of Lane Duck Deficit Discussions.” November 8, 2012. <http://www.aarp.org/about-aarp/press-center/info-11-2012/AARP-Opposes-Social-Security-Benefit-Cut-as-Part-of-Lane-Duck-Deficit-Discussions.html> (accessed March 2, 2014).

⁸² Ibid

indicated that the program is on an unsustainable path. In fact, in 1998, The Concord Coalition worked with AARP on Social Security public forms to address the fiscal challenges with the program.⁸³ *The Campaign to Fix the Debt*, co-founded by Erskine Bowles and Alan Simpson, advocates putting America on a fiscally sustainable path. Its core principles include “strengthen Social Security, so that it is solvent and will be there for future beneficiaries.”⁸⁴ *The Committee for a Responsible Federal Budget (CRFB)* is an organization committed to educating the nation about significant fiscal issues, and advocates reforming Social Security to make it fiscally sustainable. Among the reforms supported by CRFB is the concept of Chained CPI.⁸⁵ These organizations all have bipartisan roots, as *The Concord Coalition* was co-founded by former Senators Warren Rudman (R-NH) and Paul Tsongas (D-MA), *the Campaign to Fix the Debt* is co-chaired by former Senator Judd Gregg (R-NH) and former Governor Ed Rendell (D-PA), and the *CRFB* has a bipartisan board and chairs.

- **Unions:** The major union organizations have been hesitant in reforming Social Security. The *Service Employees International Union (SEIU)* acknowledges that policy reforms will need to be made for the problem to remain fiscally solvent, but tends to offer the solution of making sure “all Americans, particularly the

⁸³ “Social Security.” The Concord Coalition. <http://www.concordcoalition.org/issue-page/social-security> (accessed March 2, 2014).

⁸⁴ “Core Principles of the Campaign to Fix the Debt.” Fix the Debt. <https://www.fixthedebt.org/core-principles> (accessed March 2, 2014).

⁸⁵ Goldwein, Marc. “Should Social Security Cost-of-Living Increases Be Trimmed?” The Committee for a Responsible Federal Budget. July 18, 2013. <http://crfb.org/document/op-ed-should-social-security-cost-living-increases-be-trimmed> (accessed March 2, 2014).

wealthiest 1%, pay their fair share of Social Security taxes.”⁸⁶ SEIU has also come out in opposition to proposals by the budget hawk organizations, such as the Campaign to Fix the Debt. The SEIU publically opposed Fix the Debt coalition members advocacy for fixing Social Security, and described the idea of raise of the retirement age as “cruel.” Instead, the SEIU advocated for raising the cap on the payroll tax.⁸⁷ *The American Federation of Labor and Congress of Industrial Organizations (AFL–CIO)* contends that Social Security is “not in crisis,” and that “its modest funding shortfall can be addressed without benefit cuts or major changes to the program.” AFL-CIO also asserts that Social Security is not a contributor to the federal budget deficit, and opposes the inclusion any benefit cuts in a deficit reduction package.⁸⁸ AFL-CIO publically opposes cuts to the annual COLA, raising the retirement age, and changing the benefit formula. Instead, it contends that benefits should be raised across-the-board and supports eliminating the income cap on the payroll tax.⁸⁹

- **Right-Leaning Think Tanks/Organizations:** The think tank that carries the most weight among Congressional Republicans right now is *The Heritage Foundation*. Heritage has long advocated for Social Security reforms and warns that Social Security spending, along with Medicare, is growing and to pay for

⁸⁶“ Social Security.” Service Employees International Union. <http://www.seiu.org/a/social-security.php> (accessed March 2, 2014).

⁸⁷ Greene-Page, Keiana. “Who Wants to “Fix” Your Social Security?” SEIU Blog. December 12, 2012. <http://www.seiu.org/2012/12/who-wants-to-fix-your-social-security.php> (accessed March 2, 2014).

⁸⁸ “Issues: What is Social Security?” The American Federation of Labor and Congress of Industrial Organizations. <http://www.aflcio.org/Issues/Retirement-Security/What-Is-Social-Security> (accessed March 2, 2014).

⁸⁹ Ibid

these programs in the future, would require doubling tax rates for all brackets.⁹⁰

Heritage recommends transitioning to a flat benefit targeted at the neediest seniors, and increasing the retirement age indexing it for life expectancy as ways to restore fiscal solvency. Heritage also believes that this will encourage a greater incentive for personal retirement savings.⁹¹ *Americans for Tax Reform (ATR)* has publically stated in the past that privatization of Social Security is “good for taxpayers, the economy, and the world,” because of the impact it would have on U.S. and world markets by increasing investment capital.⁹² ATR has opposed anything it perceives a tax increase, and support of them are a violation of its “tax pledge.” It opposes increasing the Social Security taxable wage base.⁹³

- **American Public:** The American public has been hesitant in the past of accepting proposed Social Security reforms, which is indicated by the number of failed attempts to address the program’s financial shortfalls throughout history. When President Bush attempted to reform the program in 2005, the public did not overwhelmingly support it. Polling at the time showed that 58% of those polled said that the more they heard about President Bush’s plan, the less they liked it. However, these same polls indicated that two-thirds of those polled felt that the

⁹⁰ “Solutions 2014: Entitlements.” The Heritage Foundation. <http://solutions.heritage.org/entitlements/> (accessed March 2, 2014).

⁹¹ Ibid

⁹² “Social Security Privatization Good for Taxpayers, the Economy, the World.” Americans for Tax Reform. October 30, 2000. <http://www.atr.org/social-security-privatization-good-taxpayers-economy-a1181> (accessed March 2, 2014).

⁹³ “Simpson-Bowles 3.0 Is a Giant Tax Hike on Families and Small Employers.” Americans for Tax Reform. April 19, 2013. <http://www.atr.org/simpson-bowles-point-giant-tax-hike-a7559> (accessed March 2, 2014).

program was headed for a crisis or bankruptcy without any changes.⁹⁴ More recent public polling indicates that the sentiment among the public opinion has not changed with regard to the looming fiscal crisis is a problem. A Gallup poll showed that 77% of those polled believe that Social Security is in a crisis or has major problems. However, when polled about ways to address this problem, the public appears to be hesitant to accept many types of changes. This same Gallup poll shows the majority of opinion opposing raising the retirement age, reducing benefits for early retirees, increasing payroll taxes for all workers, and reducing benefits for people under the age of 55. The majority of those polled supported requiring high-income earners to pay more in Social Security taxes and means-testing for wealthy individuals.⁹⁵

V. Policy Proposal

Policy Description and Authorizing Mechanism

The goal of this proposal is to put Social Security on a more sustainable path and make changes to the program in light of changing demographics and current and future fiscal challenges. The objective is to attempt to strike an appropriate balance of changes to the program that will allow maintain its effectiveness in assisting seniors and disabled individuals. However, the changes to benefits will not impact current retirees or those on

⁹⁴ Weisman, Jonathon. "Skepticism of Bush's Social Security Plan Is Growing." The Washington Post. March 15, 2005. <http://www.washingtonpost.com/wp-dyn/articles/A35231-2005Mar14.html> (accessed March 14, 2014).

⁹⁵ "Social Security." Gallup. April 4, 2013. <http://www.gallup.com/poll/1693/social-security.aspx#2> (accessed March 14, 2014).

the verge of retiring (age 55 or older). To achieve this, legislation will have to be introduced that will amend The Social Security Act.

Implementation Mechanism

The legislation would contain a number of adjustments to the current Social Security law. These adjustments include:

- **Raise the age of retirement from 67 to 68.** By 2027, the retirement age will be 67. Following this, the legislation would begin to raise the retirement age by one month every two years until it reaches 68. Early eligibility at age 62 would not be impacted.⁹⁶
- **Subject 90% of wages to the payroll tax.** Gradually raise the amount of wages subject to the payroll tax to 90% over a 40 year period. At current income levels, this would be the equivalent of \$180,000 in wages subject to the payroll tax, as opposed to the current level, which is \$117,000.⁹⁷

VI. Policy Analysis

This legislation attempts to address the fiscal problems Social Security is facing by raising the retirement age and raising some additional revenues to fund benefits. According to the Committee for a Responsible Federal Budget, these two provisions would extend the solvency of Social Security through 2040. However, absent any additional changes, the Trust Fund would run out in 2041 and recipients would face an

⁹⁶ “The Reformer An Interactive Tool to Fix Social Security.” Committee for a Responsible Federal Budget. <http://crfb.org/socialsecurityreformer/> (accessed March 7, 2014).

⁹⁷ “Restoring America’s Future.” The Debt Reduction Task Force. November 2010. <http://bipartisanpolicy.org/sites/default/files/files/BPC%20FINAL%20REPORT%20FOR%20PRINTER%2002%2028%2011.pdf> (accessed March 8, 2014).

immediate 16% reduction in benefits, as these provisions would only close 45% of the projected 75-year funding shortfall for Social Security. Beginning in 2050, this plan would reduce scheduled benefits by 1% and increase payable benefits by 8%, while also increasing taxes by 8%.⁹⁸

While the projections show an approaching financial shortfall for Social Security, there is not a consensus on whether this represents a “crisis.” By waiting act, it will become harder for policymakers to implement reforms to the program, as each passing year adds more retirees to Social Security, meaning that more will be exempt from future changes. As more baby boomers retire, the remaining workforce will have to bear a greater burden in terms of reduced benefits or increased taxes. This approach seeks to phase-in changes, which will allow more time to adjust for their retirement, as opposed to delaying, which could cause abrupt changes in taxes and benefits. While the responsible action would be to act as soon as possible, insolvency is still almost thirty-years away based on current projections, which is why some believe that there is no sense of urgency with regard to Social Security. Further, some have contended that while the cost of Social Security is projected to represent a larger share of GDP in the future, but GDP is also projected to rise over time.⁹⁹

Raise the age of retirement from 67 to 68. Raising the retirement age has often been a solution proposed by advocates of Social Security reform. Increasing the retirement age to 68 would reduce the program’s funding gap by 13%. Addressing this

⁹⁸ “The Reformer An Interactive Tool to Fix Social Security.” Committee for a Responsible Federal Budget. <http://crfb.org/socialsecurityreformer/> (accessed March 7, 2014).

⁹⁹ Nuschler, Dawn. “Social Security Reform: Current Issues and Legislation.” Congressional Research Service. November 28, 2012. <http://www.fas.org/sgp/crs/misc/RL33544.pdf> (accessed March 14, 2014).

shortfall now would ensure that future generations would receive at least some type of government retirement benefits. Through encouraging people to work longer, it will also boost national output and generate additional resources to be split among workers and retirees.¹⁰⁰ Some proposals have gone further than raising the retirement age to 68 and have increased the age to 70, reasoning that life expectancy will continue to increase and Social Security will still face funding challenges. While further increasing the retirement age could be explored further, the age of 68 is an age that has been cited in previous Social Security reform proposals that have gained bipartisan support.¹⁰¹

Americans are living longer and are healthier than previous generations, which have caused Social Security benefits to be paid out for longer periods.¹⁰² The Centers for Disease Control and Prevention (CDC) has reported that life expectancy today is 77.9 years.¹⁰³ According to the Social Security Administration, the average remaining life expectancy for 65-year old men today is an additional 19 years and is an additional 21 years for 65-year old women. To put this into perspective, in 1940, the average life expectancy remaining for a 65-year old man was 12 years and was 14 years for a 65-year

¹⁰⁰ Favreault, Melissa M. and Richard W. Johnson. "Raising Social Security's Retirement Age." The Urban Institute. July 2010. <http://www.urban.org/uploadedpdf/412167-Raising-Social-Security.pdf> (accessed March 30, 2014).

¹⁰¹ Haider, Donald. "Simpson-Bowles: It's Back and Better Than Ever." Bloomberg News. June 14, 2012. <http://www.bloomberg.com/news/2012-06-14/in-praise-still-and-again-of-simpson-bowles.html> (accessed April 27, 2014).

¹⁰² "Increasing Retirement Ages." Urban Institute. http://www.urban.org/retirement_policy/ssretirementage.cfm (accessed March 14, 2014).

¹⁰³ "Life Expectancy." Centers for Disease Control and Prevention. <http://www.cdc.gov/nchs/fastats/lifexpec.htm> (accessed March 30, 2014).

old female. The Social Security Administration also estimates that the average person today will also live 21 years into retirement.¹⁰⁴

Since people are living longer, they can work longer and actually boost overall retirement income by increasing Social Security income and personal retirement savings.¹⁰⁵ Working longer allows individuals to earn more, accumulate more in Social Security credits, and reduce the amount of time they will be reliant on their retirement savings. As our economy continues to go through phases of innovation, and a decline in manufacturing jobs, the nature of work people are able to do has changed. In fact, the percentage of workers in physically demanding jobs declined from 57% in 1971 to 46% in 2006. Also, the amount of adults aged 55 to 64 that attended college for 4 or more years doubled.¹⁰⁶ Overall, workers are generally better educated and healthier and, therefore, able to remain in jobs for longer periods of their lives. Raising the retirement age could also have a positive impact on the nation's labor supply. CBO has asserted that raising the retirement age for Social Security would both "boost the size of total labor force and total output by the economy."¹⁰⁷

Despite this, some have argued that raising the retirement age is the wrong approach. By requiring people to work longer, this could disproportionately impact

¹⁰⁴ "Life Expectancy for Social Security." Social Security Administration. <http://www.ssa.gov/history/lifeexpect.html> (accessed March 14, 2014).

¹⁰⁵ Stone, Andrea. "Pros and Cons of Raising Retirement Age." AOL News. November 23, 2010. <http://www.aolnews.com/2010/11/23/pros-and-cons-of-raising-the-social-security-retirement-age/> (accessed March 14, 2014).

¹⁰⁶ Favreault, Melissa M. and Richard W. Johnson. "Raising Social Security's Retirement Age." The Urban Institute. July 2010. <http://www.urban.org/uploadedpdf/412167-Raising-Social-Security.pdf> (accessed March 30, 2014).

¹⁰⁷ Congressional Budget Office. "Raising the Ages of Eligibility for Medicare and Social Security." January 2012. http://www.cbo.gov/sites/default/files/cbofiles/attachments/01-10-2012-Medicare_SS_EligibilityAgesBrief.pdf (accessed April 27, 2014).

lower income individuals, and those who work physically demanding jobs. Many low-skilled workers depend on early retirement, as they tend to receive lower Social Security benefits and generally do not have pension plans or great amounts in personal retirement savings. According to the Urban Institute, “poverty rates for those with limited education increase rapidly as they approach age 62, but then decline sharply once they qualify for Social Security retirement benefits.”¹⁰⁸ Lower income individuals are also not projected to experience the same increase in life expectancy as middle and higher income workers, due to a number of factors, such as health.¹⁰⁹

Raising the retirement age could also increase the burden on the disability system, which is currently on a greater path of insolvency than retirement benefits. According to the Government Accountability Office (GAO), raising the retirement age could increase the amount of disability claims for older individuals who are unable to work. This could cause further damage to Social Security fiscal solvency because, as GAO concludes, disability payments are typically higher than retirement payments.¹¹⁰ As mentioned earlier, the Disability Insurance Trust Fund is projected to be depleted by 2016, when considered separate from retirement benefits. Further, applicants already wait years to begin collecting disability benefits. According to the Urban Institute, more than 1 million claims were waiting to be processed in 2010, and the average wait time for initial review

¹⁰⁸ Favreault, Melissa M. and Richard W. Johnson. “Raising Social Security’s Retirement Age.” The Urban Institute. July 2010. <http://www.urban.org/uploadedpdf/412167-Raising-Social-Security.pdf> (accessed March 30, 2014).

¹⁰⁹ Morrissey, Monique and Emily Garr. “Why raising the Social Security retirement age is not the answer.” Economic Policy Institute. May 5, 2009. http://epi.3cdn.net/65bf2e24d59cf56166_dym6ive5s.pdf (accessed March 30, 2014).

¹¹⁰ “Social Security Reform: Raising the Retirement Ages Would Have Implications for Older Workers and SSA Disability Rolls.” Government Accountability Office. November 2010. <http://www.gao.gov/assets/320/312590.pdf> (accessed March 30, 2014).

is 132 days, plus another 485 days when denied applications are appealed.¹¹¹ Any potential increase in applications could lengthen the already long wait times for approval of disability benefits.

Another potential problem with raising the retirement age could be that older workers could face age discrimination. Workers in their 50's and 60's who were laid off because of the Great Recession have spent more time unemployed than younger workers, and have experienced larger wage loss when returning to employment.¹¹² Also, many older workers who lose their jobs fear that they may never work again, remaining unemployed until they qualify for Social Security benefits, and studies have shown that employers are less likely to hire older low-skilled workers than younger ones.¹¹³

There is also an issue of overall fairness for workers that would be subject to the higher retirement age (those younger than 55). The Congressional Budget Office has calculated that raising the retirement age would reduce lifetime benefits for future retirees.¹¹⁴ This could be perceived as cutting benefits for the very age group that Social Security reform is intended to protect.

¹¹¹ Favreault, Melissa M. and Richard W. Johnson. "Raising Social Security's Retirement Age." The Urban Institute. July 2010. <http://www.urban.org/uploadedpdf/412167-Raising-Social-Security.pdf> (accessed March 30, 2014).

¹¹² Rich, Motoko. "For the Unemployed Over 50, Fears of Never Working Again." The New York Times. September 19, 2010. http://www.nytimes.com/2010/09/20/business/economy/20older.html?_r=0 (accessed March 30, 2014).

¹¹³ Favreault, Melissa M. and Richard W. Johnson. "Raising Social Security's Retirement Age." The Urban Institute. July 2010. <http://www.urban.org/uploadedpdf/412167-Raising-Social-Security.pdf> (accessed March 30, 2014).

¹¹⁴ "Social Security Policy Options." Congressional Budget Office. July 2010. http://www.cbo.gov/sites/default/files/cbofiles/ftpdocs/115xx/doc11580/07-01-ssoptions_forweb.pdf (accessed March 30, 2014).

Subject 90% of wages to the payroll tax. In 2014, the annual taxable maximum for Social Security is \$117,000, and this level increases each year based on average wages, and approximately 5.4% of workers have earnings at or above the maximum taxable earnings base.¹¹⁵ This provision would raise the taxable earnings base to a level that would make 90% of aggregate covered earnings subject to the payroll tax, which President Carter and Congress did in 1977, but between 1983 and 2008, the share of total wages covered by Social Security and subject to tax declined to approximately 83.5%. This is a result of rapidly growing earnings in the top income brackets.¹¹⁶ Past legislation to fix Social Security has always included a provision to generate additional revenue. This provision would do that and close Social Security's funding gap by 32%.¹¹⁷ Some proposals have advocated for eliminating the taxable maximum cap altogether. However, few individuals have earnings higher than the level of taxable earnings that would cover 90%, which was the level that was under law in 1982.¹¹⁸ Under this proposal, retirement benefits for higher earners would also rise, and would have a net positive impact on the Social Security Trust Fund.¹¹⁹ The raising of the taxable maximum would also increase

¹¹⁵ Nuschler, Dawn. "Social Security Reform: Current Issues and Legislation." Congressional Research Service. November 28, 2012. <http://www.fas.org/sgp/crs/misc/RL33544.pdf> (accessed March 14, 2014).

¹¹⁶ "Raising the Taxable Maximum." The Urban Institute. November 2013. http://www.urban.org/retirement_policy/sstaxableminimum.cfm (accessed March 17, 2014).

¹¹⁷ "The Reformer An Interactive Tool to Fix Social Security." Committee for a Responsible Federal Budget. <http://crfb.org/socialsecurityreformer/> (accessed March 7, 2014).

¹¹⁸ Mulvey, Janemarie. "Social Security: Raising or Eliminating the Taxable Earnings Base." Congressional Research Service. September 24, 2010. <https://www.fas.org/sgp/crs/misc/RL32896.pdf> (accessed April 27, 2014).

¹¹⁹ Ibid

federal revenues, with estimates by the Joint Committee on Taxation indicating that the policy would generate \$524 billion over ten years.¹²⁰

With the level of the taxable maximum at its current rate, higher income earners are effectively paying a smaller share of their income into Social Security than lower and middle income earners. Some estimates show that the top 1% of income earners pay an average effective tax rate of 1.5% for the payroll tax, taking into account employee and employer shares of Social Security and Medicare taxes.¹²¹ Higher earners tend to live longer for a number of reasons, so this proposal would serve as an offset for this. By raising additional revenue from those who will likely be less reliant on Social Security benefits, the need to implement greater benefit cuts will be lessened.

The timing on this proposal is important. If the taxable maximum gets raised sooner rather than later, it allows for the costs and effects of the tax increase to be spread out over more generations.¹²² It is a more targeted approach to generating additional revenue than an across-the-board tax increase. Also, CBO has indicated that this policy option would make the payroll tax less regressive. In its “Options for Reducing the Deficit” document, CBO states, “people with earnings above the ceiling now pay a smaller percentage of their total earnings in payroll taxes than do people whose total

¹²⁰ Ibid

¹²¹ Irons, John S. “Social Security: Keeping the Promise in the 21st Century.” Before the United States Senate Special Committee on Aging. June 17, 2009.

<http://s4.epi.org/files/page/-/pdf/johnironsonsocialsecurity.pdf> (accessed March 31, 2014).

¹²² “Raising the Taxable Maximum.” The Urban Institute. November 2013.

http://www.urban.org/retirement_policy/sstaxableminimum.cfm (accessed March 31, 2014).

earnings are below the maximum. Making more earnings taxable would increase payroll taxes for those high earners.”¹²³

Despite the fact that raising the taxable maximum would generate additional revenue to enhance Social Security’s fiscal solvency, there may be some drawbacks to this approach. First, this is a tax increase. If workers are subjected to a higher tax rate, but maintain the same benefit formula, the return on taxes paid would be reduced. Since some workers currently receive little or no return on their contributions, a higher tax rate may discourage them from working. For example, under this proposal, the Urban Institute estimates that “those who have already worked for 35 years and who will earn less in year 36 than in the previous 35 years receive no additional return from the taxes they pay in year 36.”¹²⁴

There is also the issue of fairness. Since higher earners would receive lower returns from their Social Security contributions, this could also undermine political support for the system.¹²⁵ Further, earners with many years at the taxable maximum level get low returns in benefits because of the progressivity in how benefits are calculated.¹²⁶ Raising the taxable maximum could also have negative impacts on other tax programs targeted at low-earners. Some have contended that the current Social Security tax structure was driven by motivation to creating the Earned Income Tax Credit (EITC),

¹²³ “Options for Reducing the Deficit: 2014-2023.” Congressional Budget Office. November 13, 2013. <http://www.cbo.gov/budget-options/2013/44811> (accessed March 31, 2014).

¹²⁴ “Raising the Taxable Maximum.” The Urban Institute. November 2013. http://www.urban.org/retirement_policy/sstaxableminimum.cfm (accessed March 17, 2014).

¹²⁵ Ibid

¹²⁶ Ibid

which provides an income tax credit for lower income workers. This, combined with low-income families receiving a greater amount in government payments not subjected to the payroll tax, would mitigate the flat rate nature of the tax at lower- earning levels.¹²⁷

Overall, this proposal would still fall short achieving 75-year solvency for Social Security, so more options may have to be explored. Other policy options, such as Chained CPI or individual retirement accounts could also be part of this solution, but these two provisions are designed to serve as the starting point for negotiating a bipartisan, comprehensive reform package. While other provisions have merit, raising the retirement age has been included in many previous Social Security fixes and reform proposals, and raising the taxable maximum to 90% would restore it to a previously enacted level.

VII. Political Analysis

Stakeholder Positions

- **Obama Administration:** The Obama Administration will likely not endorse this proposal as it will want to be cautious about anything involving Social Security reform, particularly prior to the mid-term elections. Subjecting 90% of wages to the payroll tax, which would target higher earners, may be something that the Administration could be receptive to, since the President has tended to believe that revenue should be part of many solutions. In 2011, the President indicated

¹²⁷ Mulvey, Janemarie. "Social Security: Raising or Eliminating the Taxable Earnings Base." Congressional Research Service. September 24, 2010. <https://www.fas.org/sfp/crs/misc/RL32896.pdf> (accessed March 31, 2014).

his support for lifting the income cap for Social Security. He was quoted saying, ““If we just made a little bit of an adjustment in terms of the cap on Social Security, that would do a significant amount to stabilize the system.”¹²⁸ Despite this, the Administration has been hesitant to endorse specific proposals, only saying anything to address this matter needs to be “comprehensive” and separate from addressing the deficit.¹²⁹ That said, the President has supported a reduction the payroll tax rate twice through stimulus efforts, which has reduced the amount of revenue taken in for Social Security in recent years. However, the Administration will be hesitant to endorse raising the retirement age, as it will receive pressure from the Left and union interests.

- **Senate Finance Committee Chairman Ron Wyden (D-OR):** Chairman Wyden could be a key ally for you in the area of Social Security reform. You have worked with Chairman Wyden in the past on a Medicare reform proposal and he is one of the more willing Senate Democrats to cross the aisle and work on major issues. While Majority Leader Reid will likely keep a close eye on him in his new role as Finance Committee Chairman, Senator Wyden has always made sure that any big proposal he has worked on, whether it is the Medicare plan he crafted with you, health care reform legislation, or tax reform, has been bipartisan. Tax reform is likely a larger priority for him right now, as he has been working on that issue for a long time.

¹²⁸ Dixon, Kim. “Obama backs lifting income cap for Social Security.” Reuters. April 19, 2011. <http://www.reuters.com/article/2011/04/19/us-usa-obama-socialsecurity-idUSTRE73I46920110419> (accessed April 11, 2014).

¹²⁹ Ibid

- **House Republicans:** The House Republican Caucus will likely support raising the retirement age. However, there will not be a lot of support for subjecting 90% of wages to the payroll tax, as it will be labeled as supporting a tax increase. When Majority Leader Cantor was asked about Simpson-Bowles' recommendations on Social Security, specifically the portion that raised the income cap, he responded by saying "I don't think there are a lot of us on our side of the aisle that embrace the core of what that commission's recommendations are about."¹³⁰ Further, regarding of what rank-and-file House Republicans may think of this plan, Leadership will not likely get in front of this proposal right away, since Social Security is a risky topic to take on.
- **Progressive Senate and House Democrats:** Members of the Democratic Caucus in the Senate will be adamantly opposed to raising the retirement age. Senator Sanders has already threatened to filibuster any legislation that is perceived as cutting entitlement benefits, and has described such proposals as "obscene."¹³¹ Senator Sanders himself has introduced legislation in the past that would eliminate the income cap on Social Security taxes.¹³² However, he also has characterized the idea of raising the retirement age as a "disaster."¹³³ Many in the

¹³⁰ Beutler, Brian. "Dems Inaccurately Attack Cantor For Calling For Elimination Of Social Security." Talking Points Memo. March 31, 2011. <http://talkingpointsmemo.com/dc/dems-inaccurately-attack-cantor-for-calling-for-elimination-of-social-security> (accessed April 11, 2014).

¹³¹ Sargent, Greg. "Bernie Sanders: Just say No to any entitlement benefits cuts." The Washington Post. March 11, 2013. <http://www.washingtonpost.com/blogs/plum-line/wp/2013/03/11/bernie-sanders-just-say-no-to-any-entitlement-benefits-cuts/> (accessed March 19, 2014).

¹³² Sanders, Bernie. "Sanders Proposes Bill to Strengthen Social Security." August 25, 2011. <http://www.sanders.senate.gov/newsroom/press-releases/sanders-proposes-bill-to-strengthen-social-security> (accessed April 11, 2014).

¹³³ Ibid

House Democratic Caucus will likely take a similar position to Senator Sanders.

Minority Leader Pelosi has rejected the idea of raising the retirement age.¹³⁴

Some House Democrats have embraced the idea of raising the income cap on Social Security taxes, which is a provision that has been included in the House Progressive Caucus' budget proposals.¹³⁵ However, like progressives in the Senate, this may not be enough of a trade off for raising the retirement age.

Senator Sanders may be able to convince enough progressives to join him in his efforts, so even if this bill were able to pass the House, and if Republicans gain control of the Senate in the next election, Sanders could still secure enough votes to ensure that the 60-vote threshold in the Senate to invoke cloture is not reached.

- **AARP, Inc.:** AARP will most likely oppose this legislation, as it has been very vocal regarding changes to the Social Security system. Despite the fact that this proposal will not change anything for current beneficiaries, AARP will try to paint this as something that will “kill Social Security as we know it” and conduct outreach to its members that Congress is trying to take away seniors' Social Security benefits. When the Simpson-Bowles Commission was producing a plan to reform Social Security, AARP publically opposed this plan, and publically feuded with former Senator Simpson. AARP claimed that the Simpson-Bowles plan would “lower the retirement incomes of average people who rely on Social

¹³⁴ Kapur, Sahil. “Pelosi: Deficit Reduction and Social Security apples and oranges.” Strengthen Social Security. July 26, 2010. <http://www.strengthensocialsecurity.org/media/news/pelosi-opposed-to-raising-retirement-age> (accessed April 11, 2014).

¹³⁵ “The People's Budget.” House Progressive Caucus. <http://cpc.grijalva.house.gov/the-peoples-budget/> (accessed April 11, 2014).

Security.”¹³⁶ The bottom line with regard to AARP is that it will oppose this plan and try to scare current beneficiaries into speaking out against it. The ability of this organization to reach a broad spectrum of the electorate cannot be taken lightly.

- **Budget Hawk Groups:** This proposal contains provisions that have been supported by the budget hawk groups, such as the Concord Coalition and the Committee for a Responsible Federal Budget/Fix the Debt. These groups will likely praise your willingness to offer a solution to Social Security’s insolvency, despite the possibility of them not believing it goes far enough. The Committee for a Responsible Federal Budget has indicated that address Social Security cannot wait and that “acting sooner will mean that the necessary changes can be smaller and gradually phased in. If policymakers wait until Social Security is on the brink of insolvency, the problem becomes much more difficult to fix.”¹³⁷ These groups could be key allies should you decide to move forward with this legislation and may be willing to assist with additional ideas and outreach on the matter.
- **Unions:** Unions will actively oppose raising the retirement age, since they have previously categorized this idea “cruel.” However, the leading unions have

¹³⁶ “AARP Urges Senator Durbin to Oppose Deficit Commission Plan.” AARP Illinois. December 2, 2010. <http://www.prnewswire.com/news-releases/policy-public-interest-latest-news/aarp-urges-senator-durbin-to-oppose-deficit-commission-plan-111236004.html> (accessed March 21, 2014).

¹³⁷ “CBO’s Social Security Projections.” Committee for a Responsible Federal Budget. February 6, 2014. <http://crfb.org/blogs/cbos-social-security-projections> (accessed March 21, 2014).

expressed a desire to ensure that the “1% pays its fair share.”¹³⁸ SEIU has advocated for raising the taxable maximum, which this plan does.¹³⁹ The unions could be problematic in terms of opposing this legislation, but raising the taxable maximum is exactly what they have argued for in the past, so that may put them in a difficult public position. However, they have opposed campaigns that have included this provision in the past that also raised the retirement age.¹⁴⁰

- **Right-Leaning Think Tanks/Organizations:** Americans for Tax Reform (ATR) will oppose raising the taxable maximum, and ATR will suggest that supporting such a provision will be a violation of its Taxpayer Protection Pledge, which has been signed 219 representatives, including you, and 39 senators.¹⁴¹ While some Republicans have suggested that their signature has expired from the Pledge, since they had signed it years ago, ATR still yields power and influence within conservative circles and has the ability to influence many in the Republican caucus. The Heritage Foundation will also oppose raising the taxable maximum, but supports raising the retirement age and slowing the growth in benefits to ensure the more needy recipients continue to get them.¹⁴² However, with both of these groups being vehemently opposed to anything that can even be perceived as raising taxes, they will not likely offer public support for this proposal. They are

¹³⁸ Greene-Page, Keiana. “Who Wants to “Fix” Your Social Security?” SEIU Blog. December 12, 2012. <http://www.seiu.org/2012/12/who-wants-to-fix-your-social-security.php> (accessed March 21, 2014).

¹³⁹ Ibid

¹⁴⁰ Ibid

¹⁴¹ “Federal Taxpayer Protection Pledge 113th Congressional List.” Americans for Tax Reform. <http://s3.amazonaws.com/atrfiles/files/files/073013-113thCongress.pdf> (accessed March 24, 2014).

¹⁴² “Solutions 2014: Entitlements.” The Heritage Foundation. <http://solutions.heritage.org/entitlements/> (accessed March 24, 2014).

also very active in campaigns, particularly Heritage, whose election-focused activity has targeted incumbents that it deems have lost not stood up for strong, conservative principles.

- **American Public:** The American public has generally been wary of Social Security reform proposals. Social Security is a popular program, with polls showing that 80% of respondents saying that Social Security has been good for the country.¹⁴³ However, polling indicates that the public recognizes that a problem with the Social Security's solvency exists. Approximately 75% of Americans believe that entitlement programs, including Social Security, will cause major economic problems over the next few decades.¹⁴⁴ This same polling suggests the majorities of the public believe that raising taxes and/or cutting benefits are bad ideas. More than 60% thinks raising the retirement age is the wrong approach, but limiting benefits for and raising additional revenue from wealthier individuals are good ideas.¹⁴⁵ Likely opposition within the American public will come from current beneficiaries, who will be scared by the AARP into thinking their benefits will be cut even though they will not, and those who will first be impacted by the changes (e.g. those in their early to mid-fifties). One demographic that may be receptive to these changes, if it can be explained to them effectively, is Millennials. A Pew Research poll shows that 54% of young

¹⁴³ "CNN Poll: One in five say Social Security is unconstitutional." CNN/ORC Poll. September 29, 2011. <http://politicalticker.blogs.cnn.com/2011/09/29/cnn-poll-one-in-five-say-social-security-is-unconstitutional/> (accessed March 24, 2014).

¹⁴⁴ "Social Security." Gallup. April 4, 2013. <http://www.gallup.com/poll/1693/social-security.aspx#2> (accessed March 24, 2014).

¹⁴⁵ Ibid

Americans ages 18-29 do not believe that there will be enough to provide entitlement benefits, including Social Security, in the future.¹⁴⁶ Further, younger Americans will be forced to pay the program's financial shortfalls should its approaching fiscal insolvency not be addressed. According to the Heritage Foundation, "younger workers would be faced with the burden of paying back the \$2.7 trillion owed to the trust fund and the \$9.6 trillion in unfunded obligations over the 75-year horizon."¹⁴⁷ It should be noted that, while this age group has more at stake in terms of the fiscal challenges Social Security faces, Millennials are not a very active age group in terms of voting. In 2012, only 45% of citizens between the ages of 18-29 voted, as opposed to the 72% of citizens over the age of 65 that voted.¹⁴⁸ In general, the public will likely be skeptical of changes to the Social Security program at first, and it will take convincing that the program is facing serious fiscal challenges in order to get them behind reform.

Political Advantages

Should Republicans continue to maintain their majority in the House of Representatives, you are poised to become Chair of the Ways and Means Committee, as Chairman Camp will be reaching his term limit at the end of this year. As you are

¹⁴⁶ Parker, Kim. "The Big Generation Gap at the Polls Is Echoed in Attitudes on Budget Tradeoffs." Pew Research. December 20, 2012. <http://www.pewsocialtrends.org/2012/12/20/the-big-generation-gap-at-the-polls-is-echoed-in-attitudes-on-budget-tradeoffs/> (accessed March 25, 2014).

¹⁴⁷ Huizinga, Danny. "Three Reasons to Reform Social Security Now." Heritage Foundation. July 17, 2013. <http://blog.heritage.org/2013/07/17/video-three-reasons-to-reform-social-security-now/> (accessed March 25, 2014).

¹⁴⁸ Grayson, Trey and Dan Glickman. "It's Up to You, Millennials." The Huffington Post. March 25, 2014. http://www.huffingtonpost.com/trey-grayson/its-up-to-you-millennials_b_5032052.html (accessed April 10, 2014).

already considered a leader in the party with regard to entitlement reform, introducing a plan to reform Social Security will show that you are serious about addressing its fiscal problems. As mentioned previously, 75% of Americans believe that entitlement programs will cause major economic problems over the next few decades. Further, this same polling shows that 68% of those asked believe that they will rely on Social Security as a minor source of income, or not a source of income at all.¹⁴⁹ This may suggest that individuals are instead focusing more heavily on private retirement funds in the future and could be more receptive to accept changes in Social Security, so long as they are perceived as fair.

Also, this plan includes provisions that have received bipartisan support in the past. As mentioned in the Background Section, Democrats are receptive to the idea of raising the taxable maximum, and Republicans have expressed support in raising the retirement age. If this plan is able to generate bipartisan support, the public may be more willing to accept it. Major legislative efforts are seldom address in a partisan manner and the American public generally understands that if something is not bipartisan, it is likely not to be fair. While raising the retirement age may be hard for the Democrats to accept initially, increasing the taxable maximum does demonstrate a willingness to address Social Security insolvency in a bipartisan manner by putting revenue on the table.

¹⁴⁹ “Social Security.” Gallup. April 4, 2013. <http://www.gallup.com/poll/1693/social-security.aspx#2> (accessed March 24, 2014).

Political Disadvantages

As mentioned earlier in the Background Section, Social Security is “The Third Rail of American Politics.” History shows that Social Security reforms have been enacted when the program was on the verge of a crisis. For example, the 1983 reforms took two years and were enacted just a few months before the Trust Fund would have been depleted and current revenues would not have been able to cover benefits.¹⁵⁰ Since insolvency is not projected to surface until 2033, there will not likely be a sense of urgency or willingness to act in a way to address Social Security’s fiscal problems now. Even reform plans included in broader, bipartisan, deficit reduction packages, such as Simpson-Bowles, resulted in the National Commission on Fiscal Responsibility and Commission being labeled a “Catfood Commission” that would reduce seniors to consuming pet food in order to not starve because of changes to Social Security benefits.¹⁵¹

Some will also try to paint this proposal as one that “ends Social Security as we know it.” While these provisions have been embraced by both sides of the aisle, there are plenty of Congressmen and Senators that will likely feel that raising the retirement age or increasing the taxable maximum for the payroll tax are “non-starters” in this debate. This indicates that enacting these reforms this far out from 2033 would very much be an uphill battle that many legislators may not have the stomach for.

¹⁵⁰ Arnold, Douglas R. “The Politics of Reforming Social Security.” *Political Science Quarterly* Volume 113 Number 2 1998. <https://www.princeton.edu/~arnold/research/psq98.pdf> (accessed March 25, 2014).

¹⁵¹ McCarter, Joan. “Simpson-Bowles weigh in on fiscal cliff deal: Not enough catfood.” *Daily Kos*. January 2, 2013. <http://www.dailykos.com/story/2013/01/02/1175677/-Simpson-Bowles-weigh-in-on-fiscal-cliff-deal-Not-enough-nbsp-catfood#> (accessed March 25, 2014).

VIII. Recommendation

While this proposal would improve the fiscal solvency of Social Security, I do not recommend introducing this legislation at this time. We are in an election year with a divided government that has not been productive in terms of enacting policies.

Introducing a bill now to change Social Security will certainly be seen as “dead on arrival.” Leadership will not likely get behind the proposal, and the Speaker will probably attempt to lower any expectations of House activity on Social Security reform this year, much like he did when Chairman Camp released his tax reform plans. Further, the Senate could even be less interested in moving forward with any type of Social Security plan this year. Majority Leader Reid has 21 members of his caucus up for re-election this year, many of which is very tight races, and does not want to put them in a position of having to have anything on their records with regard to Social Security or any other entitlement program. Since there is no collective sense of urgency with regard to Social Security, and no time to do anything about it this year anyway, there is zero chance any proposal touching this issue would be considered this year.

Instead of introducing legislation to raise the retirement age and increase the taxable maximum for Social Security, I recommend turning to these principles in the future. With Chairman Camp reaching his term limit for chairmanship of the House Ways and Means Committee, you are considered the favorite to be his successor as the top Republican on the committee. House Republicans are also projected to retain the House, which means you will likely be Chairman next year. Since Ways and Means has

jurisdiction over Social Security, this puts you in a much stronger position in terms of advocating for reforms to improve the program's solvency.

Further, this proposal does not go far enough in terms of closing the funding gap for Social Security, as it is projected to only extend the solvency of the program through 2040. In order to make the program sustainable for 75 years, additional reforms will have to be made. However, these are two important components that should be included in any type of reform to the program. A willingness to include additional revenue with raising the retirement age would demonstrate to Democrats that you are serious about addressing Social Security financial problems in a bipartisan manner. These principles are only to serve as the starting point. If negotiations move forward, additional ideas will likely have to be on the table, such as Chained CPI, personal accounts, and means-testing for wealthy beneficiaries. The American public will probably not accept a proposal that deals with entitlements if it does not have the support of both parties. Major legislation that impacts all Americans that is not bipartisan will likely be seen as unfair by the public.

The best path forward for this proposal would be to approach a high-ranking Democrat with an interest in this issue, such as Senator Ron Wyden. If Republicans do not take control of the Senate in this year's elections, Senator Wyden will be Chairman of the Finance Committee. While his top priority in that position will be tax reform, Senator Wyden has worked with you in the past Medicare reform principles. You have previously showed an ability to cut a bipartisan deal in the Fiscal Year 2014-15 budget

process with Senator Patty Murray, which was able to attract bipartisan support in both chambers for passage. This effort was praised as breaking a long impasse that had obstructed passage of a budget in Congress for a number of years.

By offering up this proposal at a later time, this will signal a willingness to take a lead on this issue, as well as seriousness in addressing this matter in a bipartisan fashion. Initially, this should not be done legislatively, but instead through negotiating with a Democrat willing to work on this issue. The ultimate product will be legislation, but you should not introduce a bill designed to enact these two proposals until there is a final, bipartisan deal. As previously mentioned, these two provisions have received some form of bipartisan endorsement, and one would restore the taxable maximum to a previously enacted level. As a result, they will serve as a better starting point than items that may be perceived as more controversial, such as personal retirement accounts.

This proposal will cause some hesitation by members of both parties and Democrats do not want to raise the retirement age and Republicans are hesitant in raising the taxable maximum. However, the problem with Social Security's fiscal solvency must be dealt with on both the benefits and revenue sides, and be done in a comprehensive manner. If both parties are willing to put their "sacred cows" on the table, there can be a greater sense of bipartisan spirit in crafting a solution to this problem. This is why I recommend using these two provisions for negotiating at later time.

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Education

September 2012 – May 2014
Master of Arts, Public Management
Johns Hopkins University
Capstone: Social Security Solvency Options

September 2000 – May 2004
Bachelor of Arts, Political Science
University of New Hampshire

Professional Experience

March 2010 – present
The Livingston Group, LLC
Principal Lobbyist

Duties: Provide expertise to clients and firm partners and ensures all teams communicate in developing messaging and policy. Advise clients throughout the Congressional legislative and appropriations processes by developing a government relations plan, presenting it for client approval, and advocating directly on their behalf before Congress.

March 2006 – January 2010
Office of United States Senator Judd Gregg
Legislative Assistant

Duties: Ensured the Senator was staffed during Committee Process and full Senate consideration of legislation. Informed, briefed, and advised the Senator on energy, environmental, and agricultural issues, providing recommendations for action or implications of various policies and served as the interface during constituent meetings. Assisted with and negotiated legislation relevant to committee staff and outside groups on issues and provided written and oral analysis of legislation.